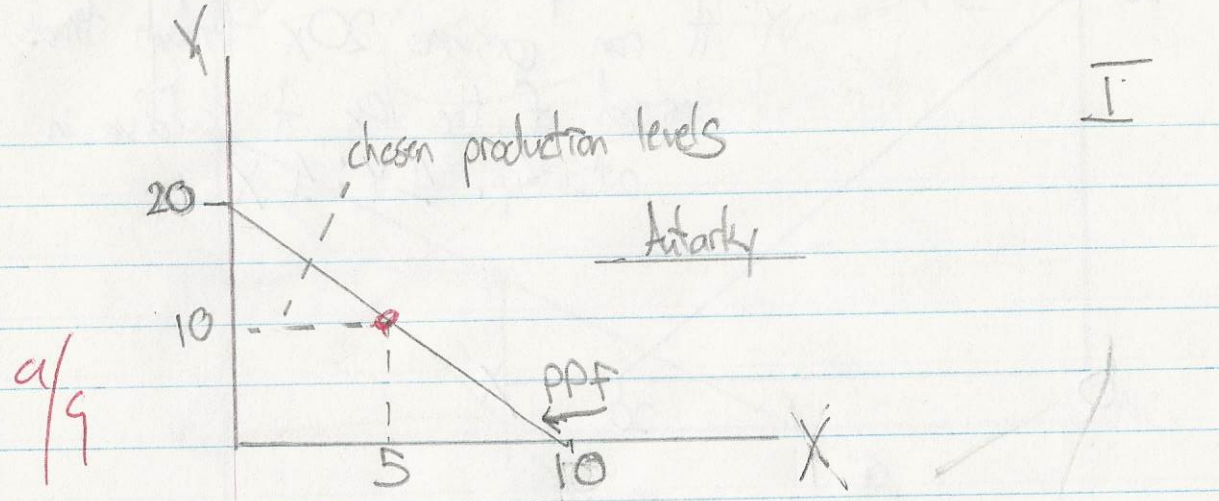
1a

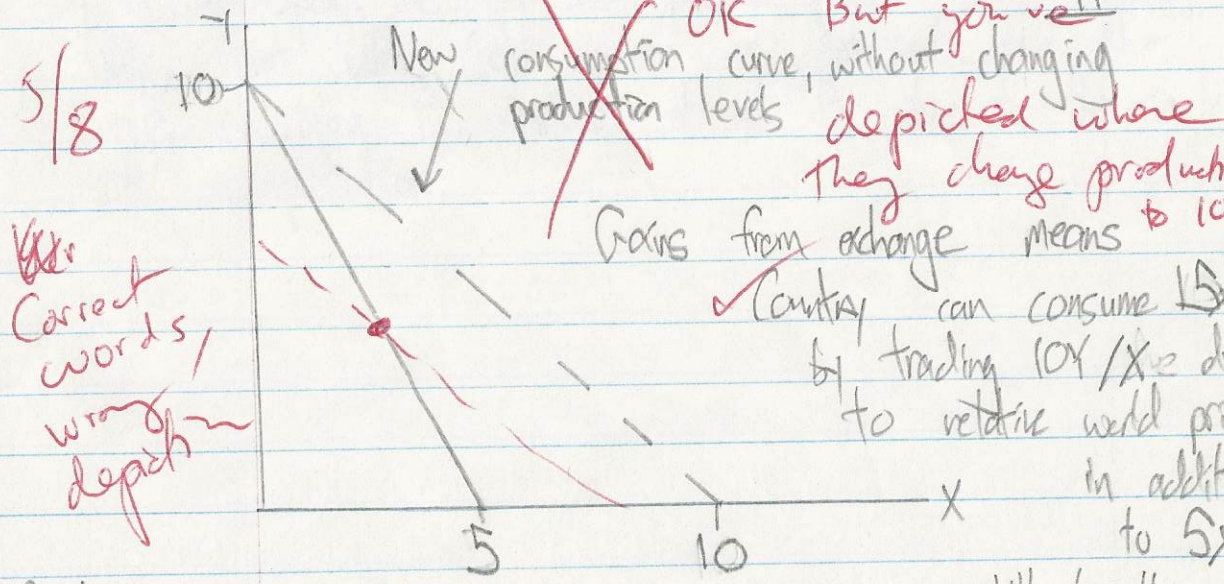


I

a/q

The opportunity cost of 1X is 2Y

5/8



~~OK~~ But you've depicted where they change production

Gains from exchange means to 10y

Country can consume 15x by trading 10Y/X to relative world price

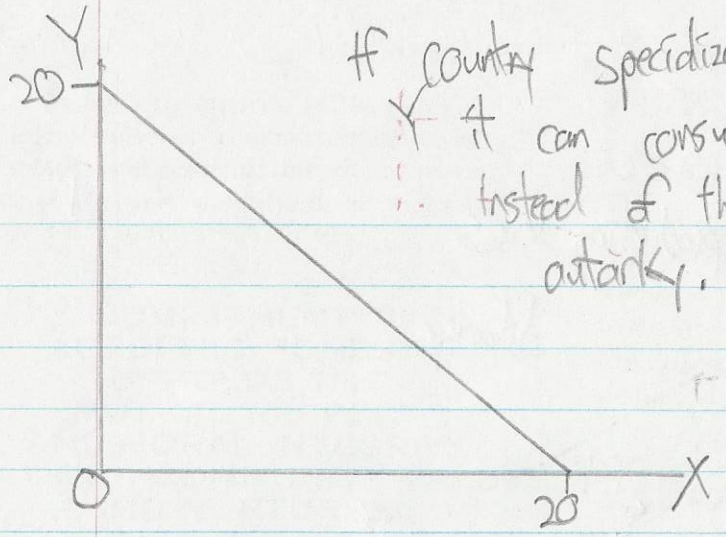
in addition to 5x still locally produced

II

Correct words, wrong depiction

Relative price now 1Y:1X

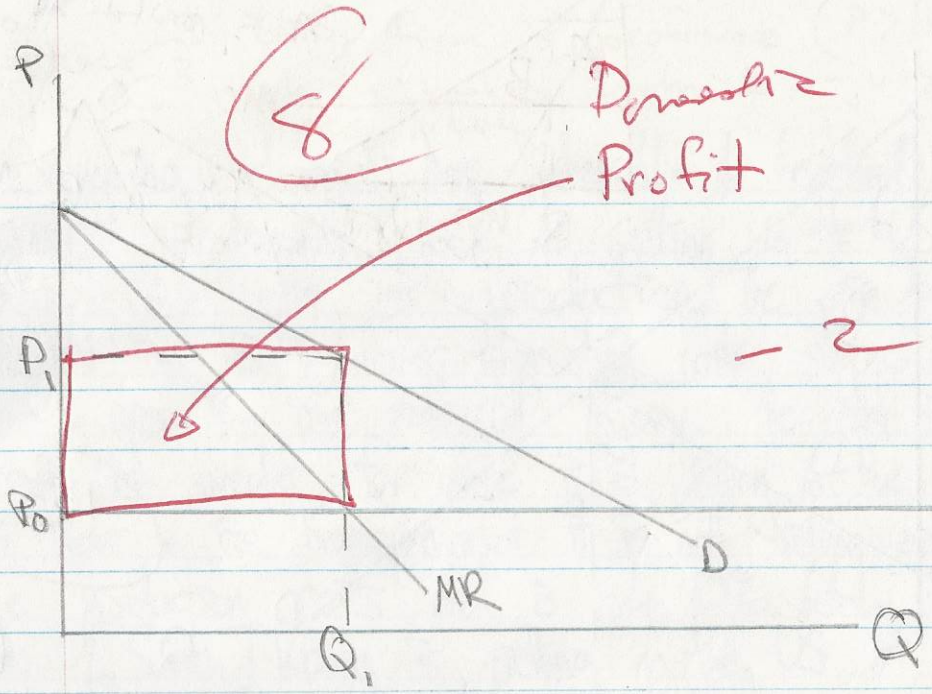
1-c- III



If country specializes in Y it can consume 20X through trade instead of the 10X it could've in autarky. 1Y : 1X

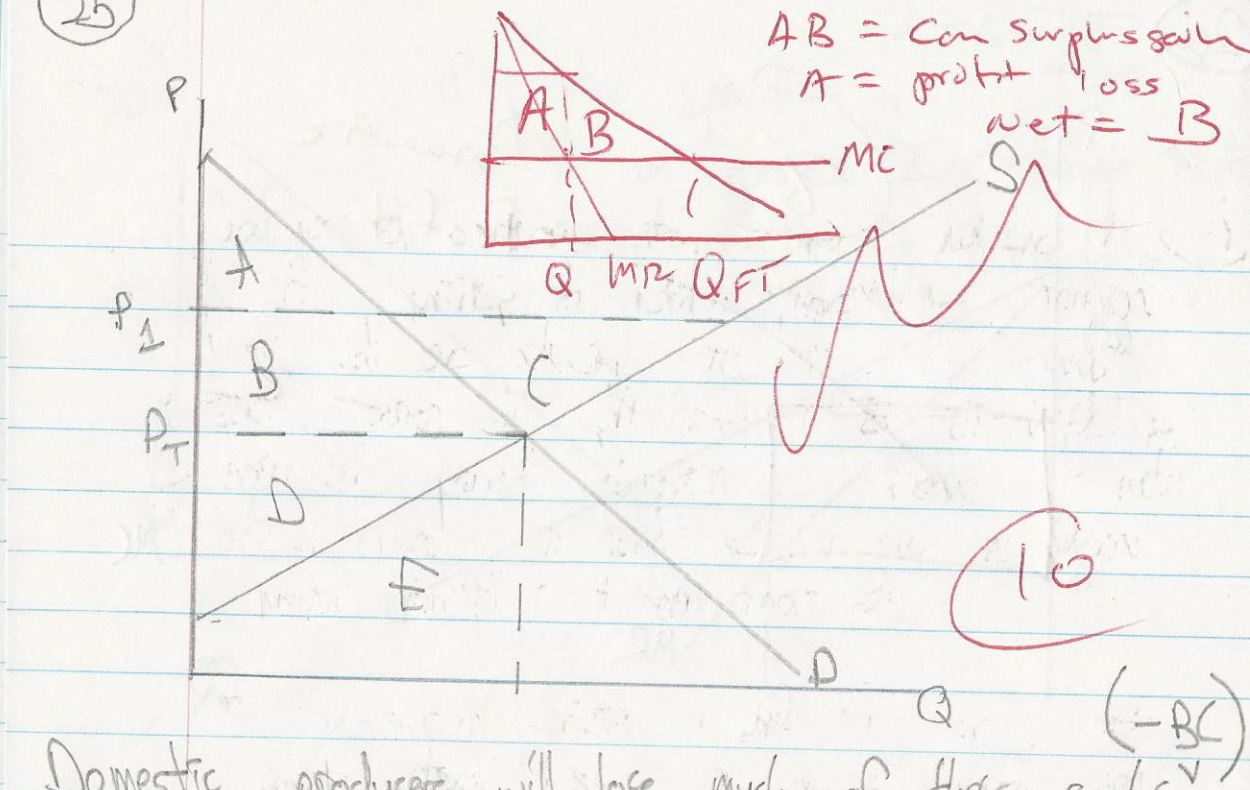
8/8

2a



In a monopoly, the firm will produce until MR=MC (at Q_1) but will sell where Q_1 intersects the D-curve, charging P_1 instead of at P_0 due to the lack of competition.

25



10

(-BC)

Domestic producers will lose much of their surplus. Even if the foreigners are not cheaper the mere existance of competition will force the lowering of prices to where MR=MC. Domestic production ~~will decrease.~~ Stays the same by assumption

Domestic consumers will gain a new surplus (AB, from A). The nation as a whole benefits, as consumer gains > producer losses (assuming transfers have no effects).

See above

II - 1

-3 U.S. firm is profitable (P > ATC) which makes material injury less likely.

(a) Dumping charges may plausibly be levelled against Japan, which is selling in the US at below its cost of production. The price being sold by JPN is 15% lower than US costs, suggesting strong grounds for material injury. The case against Korea is weaker, for while it is selling in the US for less than in its home market it is not selling below its average production costs, and is only 10% below US prices. [South] Korea is selling in the US at the same price as in its home market, making it a hard charge to stick, though it is still 15% below US prices the same as injuries Japan.

-3

(b) US antidumping procedures are overwhelmingly political, with no role for Congress or the Executive (except for leadership appointments/nominations). Dumping is handled primarily by the Dept. of Commerce and the International Trade Commission, who analyze cases and decide whether they have merit to proceed.

(ITC looks at material injury)

-2

(c) Quantitatively, imports into the US would not necessarily fall if antidumping duties were levied. Foreign firms that are not dumping but still selling at the desired low prices may take up the slack. Assuming perfect competition, Americans will prefer buying imports so long as they are nominally cheaper than their US counterparts.

If antidumping duties means that the lowest available price rises then imports should fall as some consumers are priced out of the market, all things being equal.

If price of X falls
⇒ labor loses in both industries
⇒ capital wins in both industries

III-1

For the industry where the price is falling: labor and capital both get hurt

For the other industry: both benefit.

(a) In the VSR all factors are immobile, so there are no inflows/outflows to K- or L-intensive industries. Since only the price changes — in this case dropping due to the removal of protectionist, anti-competitive tariffs — the real returns determined ($MPL \cdot P$) and ($MPK \cdot P$) will both fall, perfectly with the price drop. Since the price falls at the exact same rate as payments to workers and capital owners both will be able to consume as much of their industry's product, but less of other, unaffected industries.

(b) The LR assumes mobility of all factors, so interests are no longer tied exactly to one's industry. If Industry X is K-intensive and suffers a price drop due to de-tariffed competitors it will initially lose returns ($P \cdot MPK$), while L-intensive Industry Y ?? will benefit. Since Y is more profitable, in the LR both L and K will move into that sector. Since L is more valuable than K (K being cheap due to its lower value/returns) workers will disproportionately benefit, initially, but an equilibrium will be reached

As before there are two industries to examine

again when K can be efficiently allocated. Thus in the LR workers and capital owners will be in the same position. Rent and wages will adjust until owners and laborers are indifferent as to what industry they're in.